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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70677; File No. SR-NYSEArca-2013-103)

October 11, 2013

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Adding a New Rule to Adopt Price Protection Filters for Electronic Complex Orders

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (the "Act")[2] and Rule 19b-4 thereunder,[3] notice is hereby given that, on October 3, 2013, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of the Substance of the Proposed Rule Change

The Exchange proposes to add a new rule to adopt price protection filters for Electronic Complex Orders. The text of the proposed rule change is available on the Exchange's website at www.nyse.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places

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1 15 U.S.C.78s(b)(1).

2 15 U.S.C. 78a.

3 17 CFR 240.19b-4.

specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to amend Rule 6.91-Electronic Complex Order Trading by establishing new Commentary .04 [sic] governing price protections filters applicable to electronically entered Complex Orders.[4]

As defined in NYSE Arca Rule 6.91, which governs Electronic Complex Order trading, an "Electronic Complex Order" is a Complex Order entered into the NYSE Arca System ("System"), which is routed to the Complex Matching Engine ("CME") for possible execution. As set forth in Rule 6.91, the CME is the mechanism in which Electronic Complex Orders are executed against each other or against individual quotes and orders in the Consolidated Book. Electronic Complex Orders that are not immediately executed by the CME are routed to the Consolidated Book.

Electronic Complex Orders are entered into the System at a net debit/credit price for the entire strategy. Complex Orders do not include specified prices for any single series component ("leg") of the Electronic Complex Order. Bids and offers on Electronic Complex Orders may be expressed in any decimal price, and the legs(s) of an Electronic Complex Order may be executed

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4 Exchange Rule 6.62(e) defines a Complex Order as any order involving the simultaneous purchase and/or sale of two or more different option series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy.

in one cent increments regardless of the minimum price variation ("MPV") [5] otherwise applicable to the individual legs of the order. No leg of an Electronic Complex Order submitted to the System will be executed at a price outside the NYSE Arca best bid /offer for that leg. However, Electronic Complex Orders may be executed without consideration of prices for the same Electronic Complex Order that might be available on other exchanges. Individual leg(s) of an Electronic Complex Order may be executed at a price without regard to the National Best Bid or Offer ("NBBO") as disseminated by the Options Price Reporting Authority ("OPRA") for that same leg.[6] In additional, neither Electronic Complex Orders nor the individual legs that comprise an Electronic Complex Order are eligible for routing to other exchanges.

The Exchange believes that while it is appropriate to exempt individual leg prices of Electronic Complex Orders from NBBO trade through liability, there is still need for some level of price protection for Electronic Complex Orders that are entered at a net debit/credit price that is greater (less) than the NBBO market for the Electronic Complex Order as a whole. The Exchange now proposes to enhance the processing of Electronic Complex Order by introducing a Price Protection Filter for Electronic Complex Orders ("Filter") that will automatically reject an incoming Electronic Complex Order if the net debit/credit limit price of the order is greater (less) than the derived net debit/credit NBBO[7] for the contra-side of the same strategy by a set amount as specified by the Exchange ("Specified Amount"). Electronic Complex Orders will be

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5 The minimum price variations ("MPV") are equivalent to the Trading Differentials as prescribed in Rule 6.72(a).

6 OPRA collects and disseminates the best bid, and the best offer for all option series as submitted by each options exchange. The NBBO represents the consolidated best bid and the best offer for each series, as disseminated by OPRA. Pursuant to Rule 6.94(b)(7), Complex Trades are exempt from NBBO trade through liability.

7 The Exchange will calculate the derived contra-side NBBO for an Electronic Complex Order using the prevailing markets for all individual legs of the order as disseminated by OPRA at the time the order is received by the Exchange.

subject to the Filter, and thus afforded price protection, provided OPRA is disseminating an NBBO market for each series component of the Electronic Complex Order at the time the order is received by the Exchange. The Exchange believes that the proposed price protection filters will prevent the execution of an incoming Electronic Complex Orders which is priced so far away from the prevailing NBBO market for the contra-side of the same strategy, that an execution of such order could cause significant price dislocation in the market.

The Specified Amount is applicable to the net debit/credit price of the Electronic Complex Order and is not applicable to any single leg of the order. The Exchange proposes to specify the following amounts as the price protection settings for the Filter.

.10 for orders where the smallest MPV of any leg of the Electronic Complex Order is .01;

.15 for orders where the smallest MPV of any leg of the Electronic Complex Order is .05;

and .30 for orders where the smallest MPV of any leg of the Electronic Complex Order is .10.

For Electronic Complex Orders that are entered on a 1x1 ratio, the Filter will be applied by the Specified Amounts above (.10, .15, or .30).

For Electronic Complex Orders that are entered on an uneven ratio (2x3 for example) where the MPV on all legs is the same, the Filter will be applied by the Specified Amount multiplied by the smallest contract size leg of the ratio (.20, .30, or .60 on the 2x3 example).

For Electronic Complex Orders that are entered on an uneven ratio (2x3 for example) where the MPV of the legs are not the same (.10 and .05 for example), the Filter will be applied by taking the lesser of; the Specified Amount applicable to the smallest leg of the Electronic Complex Order and multiplied by the contract size of that leg (.60 in this example), or the Specified Amount of the largest leg of the Electronic Complex Order multiplied by the contract size of that leg (.45 in this example).

The price protection filter will work as described below.

Upon receipt by the Exchange of an Electronic Complex Order, the Filter will check the net debit/credit price of the order against the contra-side derived NBBO for the same strategy at the time of order entry to determine whether the order's limit is within the specified price. The contra-side NBBO will be derived from the net debit/credit market for the same strategy by using the NBBO prices for the individual leg markets as disseminated by OPRA that when aggregated create a derived NBBO for that same strategy.[8] The bid/ask of the individual leg markets comprising the derived NBBO may be as disseminated by one exchange, or comprised of a bid from one exchange and an offer from a different exchange. The Filter will always use the best bid and offer for each leg of the Electronic Complex Order when determining what the derived NBBO is for the same strategy. If the incoming Electronic Complex Order is priced at a net debit/credit such that an execution could occur on NYSE Arca Options at a price that was greater (less) than the derived contra-side NBBO by any amount exceeding the Specified Amount for that same strategy, the order would be rejected back to the OTP Holder with a reject code explaining the reason for the reject. This would hold true even if the proposed execution was within the Exchange's BBO.

By rejecting the aggressively priced Electronic Complex Order, the Filter prevents a possible execution from occurring at a price significantly worse than the derived contra-side NBBO.

<u>Examples of Price Protection Filter</u>

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8 Markets for Electronic Complex Orders that may be available in the NYSE Arca Complex Order Book ("COB") or in a competing exchanges complex order book, or spread book, are not disseminated by OPRA or included in NBBO calculations and will not be used by the Exchange to derive at an NBBO market for an Electronic Complex Order.

Example #1

This example shows how the Filter is applied to an Electronic Complex Order priced at a net debit with leg markets having the same MPV. Assume the following:

MPV = .05

Jan 20 calls	NBBO	2.00 – 2.10
Jan 25 calls	NBBO	1.05 – 1.20

The Exchange receives an incoming Electronic Complex Order to buy Jan 20 calls and sell Jan 25 calls, on a 1:1 ratio, priced at a 1.25 debit. This would imply that the buyer would be willing to pay 1.25 for the strategy as a whole without regard to the prices of the individual leg markets. Upon receipt, this order would be routed to the CME for processing.

Pursuant to this proposal, before routing the order to the CME the Filter will first check the derived contra-side NBBO net debit/credit market for the same strategy. In this case the NBBO market for the contra side of the same strategy is offered at 1.05 (this price is established by selling one Jan 20 for 2.10 and buying one Jan 25 for 1.05). The Filter will then look at the NBBO price of smallest-priced leg of the Electronic Complex Order and apply the appropriate price protection amount as described above. Which for this example .15. Because the derived contra-side NBBO price of 1.05 is better than the limit price of the Electronic Complex Order by .20, which exceeds the Filter setting of .15, the System will not route the order to the CME for processing but will automatically reject the order back to the entering OTP Holder with a reject code explaining the reason for the rejection.

Example #2

This example shows how the Filter is applied to an Electronic Complex Order priced at a net debit with leg markets having different MPVs.

Assume the following:

MPV = .10 and .05

Jan 20 calls	NBBO	5.00 – 5.30
Jan 25 calls	NBBO	2.10 – 2.20

The Exchange receives an incoming Electronic Complex Order to buy Jan 20 calls and sell Jan 25 calls, on a 1:1 ratio, priced at a 3.60 debit. (This would imply that the buyer would be willing to pay 3.60 for the strategy as a whole without regard to the prices of the individual leg markets). Upon receipt, this order would be routed to the CME for processing.

As proposed, before routing the Electronic Complex Order to the CME, the Filter will first check the derived NBBO net debit/credit market for the contra side of the same strategy. In this case, the contra-side NBBO for the same strategy is offered at 3.20 (this price is established by selling one Jan 20 for 5.30 and buying one Jan 25 for 2.10). The Filter will then look at the NBBO price of smallest priced leg of the Electronic Complex Order and apply the appropriate price protection amount as described above. Which for this example would be .15. Because the derived contra-side NBBO debit price of 3.20 is better than the limit price of the Electronic Complex Order by .40, which exceeds the Filter setting of .15, the System would automatically reject the order back to the entering OTP Holder with a reject code explaining the reason for the rejection.

<u>Example #3</u>

This example shows how the Filter is applied to an Electronic Complex Order priced at a net credit with leg markets having the same MPV. Assume the following:

MPV = .01

Jan 20 calls	NBBO	2.03 – 2.08
Jan 25 calls	NBBO	1.00 – 1.01

The Exchange receives an incoming Electronic Complex Order to sell Jan 20 call and buy Jan 25 call, priced at a .90 credit. (This would imply that the seller would be willing to receive .90 for the strategy as a whole without regard to the individual leg markets). Upon receipt, this order would be sent to the CME for processing.

Pursuant to this proposal however, before routing the Electronic Complex Order to the CME the Filter will first check the derived NBBO net debit/credit market for the contra side of the same strategy. In this case the contra-side NBBO market is priced at 1.02 (this price is established by buying one Jan 20 for 2.03 and selling one Jan 25 for 1.01). The Filter will then look at the NBBO price of smallest priced leg of the Electronic Complex Order and apply the appropriate price protection amount as described above. Which for this example would be .10. Because the derived contra-side NBBO price of 1.02 is better than the limit price of the Electronic Complex Order by .12, which exceeds the Filter setting of .10, the System would automatically reject the order back to the entering OTP Holder with a reject code explaining the reason for the rejection.

Example #4

This example shows how the Filter is applied to an Electronic Complex Order priced at a net credit on an uneven ratio with leg markets having the same MPV. Assume the following:

MPV = .01

Jan 20 calls	NBBO 2.03 – 2.08
Jan 25 calls	NBBO 1.00 – 1.02

The Exchange receives an incoming Electronic Complex Order to sell Jan 20 calls and buy Jan 25 calls, on a 2:3 ratio, priced at a .75 credit. This would imply that the seller would be willing to receive .75 for the strategy as a whole without regard to the prices of the individual leg markets.

As proposed, before routing the Electronic Complex Order to the CME the Filter will first check the derived NBBO net debit/credit market for contra side of the same strategy. In this case the contra-side NBBO market is priced at 1.00 (this price is established by buying two Jan 20s for 2.03 each and selling three Jan 25s for 1.02 each (4.06 - 3.06 = 1.00)). The Filter will then look at the NBBO price of smallest-priced leg of the Electronic Complex Order and apply the appropriate price protection amount as described above. Which for this example would be .10. However, because this order was entered on a ratio where the smallest contract sized leg is greater than one contract, the Filter is applied to the aggregate of the small sized leg of the ratio, which in this case is .20 (.10 x 2 contracts). Because the derived contra-side NBBO price of 1.00 is better than the limit price of the Electronic Complex Order by .25, which exceeds the Filter setting of .20, the Filter will automatically reject the order back to the entering OTP Holder with a reject code explaining the reason for the rejection.

<u>Example #5</u>

This example shows how the Filter is applied to an Electronic Complex Order priced at a net credit on an uneven ratio with leg markets having a different MPV. Assume the following:

MPV = .10 and .05

Jan 20 calls	NBBO 4.10 – 4.20
Jan 25 calls	NBBO 1.90 – 2.00

The Exchange receives an incoming Electronic Complex Order to sell Jan 20 calls and buy Jan 25 calls, on a 2:3 ratio, priced at a 1.50 credit. (This would imply that the seller would be willing to receive 1.50 for the strategy as a whole without regard to the prices of the individual leg markets).

As proposed, before routing the Electronic Complex Order to the CME, the Filter will first check the derived NBBO net debit/credit market for the contra side of same strategy. In this case the contra-side NBBO market is priced at 2.20 (this price is established by buying two Jan 20s for 4.10 each and selling three Jan 25s for 2.00 each (8.20 - 6.00 = 2.20)). The Filter will then look at two scenarios to determine what price protection level would apply. First, the Filter will look at the NBBO price of the leg of the Electronic Complex Order with the smallest contract size (Jan 20 leg) and determine the appropriate price protection amount. Which in this example would be .30. However, because the minimum contract size on the leg is greater than one, the price protection amount is applied to the aggregate contract size (2 contracts), which in this case would establish a Filter setting of .60 (.30 x 2 contracts). Next, the Filter will look at the NBBO price of the leg of the order with the largest contract size (Jan 25 leg) and determine the appropriate price protection amount, which in this case would be .15. However, because the minimum contract size on the leg is greater than one, the price protection amount is applied to the aggregate contract size of the leg (3 contracts), which in this case would establish a Filter setting of .45 (.15 x 3). The Filter will always apply the more conservative setting, which in this case would be .45. Because the derived contra-side NBBO price of 2.20 is better than the limit price of the Electronic Complex Order by .70, which exceeds the Filter setting of .45, the Filter would automatically reject the order back to the entering OTP Holder or OTP Firm.

The Filter is not intended to either offer price protection to bids and offers at away markets, or to offer NBBO guaranteed pricing to Electronic Complex Orders submitted to NYSE Arca. Rather the proposed Filter would offer a level of protection to incoming Electronic Complex Orders that are entered at a price so far away from the prevailing contra-side NBBO market for the same strategy, that the execution of such order could cause price dislocation in the market. Accordingly, the Exchange does not propose to reject all orders with a limit price greater (less) than the contra-side NBBO, just those that are greater (less) by an amount as prescribed by the Exchange. The Exchange believes that rejecting such aggressively priced Electronic Complex Orders will help to ensure that market participants do not receive an execution at a price significantly inferior to the prevailing NBBO.

The Exchange recognizes that under certain market conditions the specified amounts prescribed by the Exchange, and applicable to the Filter, may be overly restrictive at times and there could be situations where the Exchange may need to temporarily widen the Filter settings to accommodate market conditions in a given class. This could happen because of, but not limited to, instances of extreme volatility, the dissemination of non-firm markets by competing exchanges, or some other condition that would lead the Exchange to believe that it would not be reasonable to expect that a market participant could receive an execution of an Electronic Complex Order at, or close to, the prevailing contra-side NBBO market for a given strategy. Therefore, the Exchange proposes that in the interest of a fair and orderly market, the Filter settings may be temporarily modified by a Trading Official to an amount greater than prescribed, on a class-by-class basis. Trading Officials are presently authorized to make similar determinations regarding such matters as position limits[9] and quote-width differentials.[10] Permitting a Trading Official to temporarily modify the price settings in the Filter is consistent with their ability to recommend and enforce rules and regulations relating to trading, access, order, decorum, health, safety and welfare on the Exchange which contributes to the Exchange's obligation to maintain a fair and orderly market. If a Trading Official were to temporarily modify the Filter settings, the Exchange will contemporaneously announce the new settings to all OTP

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[9] See Exchange Rule 6.8.04

[10] See Exchange Rule 6.37(b)

Holders and OTP Firms via Trader Update.[11] Temporary modifications to Filter settings will be completed at the Exchange level. OTP Holders and OTP Firms will not have to make any adjustments to proprietary systems to accommodate such modifications.

2. Statutory Basis

The statutory basis for the proposed rule change is Section 6(b)(5) of the Securities Exchange Act of 1934 (the "Act"), in general, and furthers the objectives of Section 6(b)(5)[12] which requires the rules of an exchange to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. The proposed rule change also is designed to support the principles of Section 11A(a)(1)[13] of the Act in that it seeks to assure fair competition among brokers and dealers and among exchange markets. The Exchange believes that this proposal meets these requirements in that the proposed rule assists with the maintenance of fair and orderly market by helping to mitigate the potential risks associated with the entry of Complex Orders that are entered at a price greater than the prevailing contra-side NBBO market for the same strategy, potentially resulting in executions at prices that are away from the best bid or offer, thereby protecting investors from receiving executions at inferior prices to what may be available at other market centers.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The

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11 Trader Updates are disseminated electronically to all OTP Holders and OTP Firms and posted to the Exchange's website.

12 15 U.S.C. 78f(b)(5).

13 15 U.S.C. 78k-1(a)(1).

Exchange is proposing a market enhancement that provides greater protections from potentially erroneous executions and the attendant risks of such executions to market participants. Therefore, the Exchange believes that the proposal should provide an incentive for market participants to enter executable interest in the CME that can help foster price discovery and transparency thereby benefiting all market participants. The proposal is structured to offer the same enhancement to all market participants, regardless of account type, and will not impose a competitive burden on any participant. The Exchange does not believe that the proposed mechanism will impose a burden on competing options exchanges. Rather, the availability of this mechanism may foster more competition. Specifically, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues. When an exchange offers enhanced functionality that distinguishes it from the competition and participants find it useful, it has been the Exchange's experience that competing exchanges will move to adopt similar functionality. Thus, the Exchange believes that this type of competition amongst exchanges is beneficial to the market place as a whole as it can result in enhanced processes, functionality, and technologies.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not:

(i) significantly affect the protection of investors or the public interest;

(ii) impose any significant burden on competition; and

(iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)[14] of the Act and Rule 19b-4(f)(6)[15] thereunder.

At any time within 60 days of the filing of such proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)[16] of the Act to determine whether the proposed rule change should be approved or disapproved.[17]

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2013-103 on the subject line.

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14 15 U.S.C. 78s(b)(3)(A).

15 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of the filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

16 15 U.S.C. 78s(b)(2)(B).

17 15 U.S.C. 78s(b)(3)(C).

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2013-103. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2013-103, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[18]

Kevin M. O'Neill
Deputy Secretary

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[18] 17 CFR 200.30-3(a)(12).